

BUREAU OF STATISTICS AND PLANS

(Bureau of Planning)

Government of Guam



Felix P. Camacho
Governor of Guam

Michael W. Cruz, M.D.
Lieutenant Governor

P.O. Box 2950 Hagåtña, Guam 96932
Tel: (671) 472-4201/3
Fax: (671) 477-1812

Alberto "Tony" Lamorena V
Director

JAN 27 2010

The Honorable Judith T. Won Pat, Ed.D
Speaker
I Mina' Trenta Na Liheslaturan Guåhan
155 Hesler Street
Hagåtña, Guam 96910

Office of the Speaker
Judith T. Won Pat, Ed.D.
1/28/10
9:41K
[Signature]

Dear Speaker Won Pat:

Subject: REPORTING REQUIREMENT PURSUANT TO PUBLIC LAW 29-113

I hereby transmit the report pursuant to Public Law 29-113, Chapter 13 of Title 2, Guam Code Annotated Section 13109(a)(2) in coordination with the Guam Department of Labor, and input from the majority of members of the Special Economic Service, the impact of both military and non-military federal expenditures on Guam's economic growth, employment, tax revenues, and other variables for the next year compared with the previous five years. This report will posted on our website shortly.

Please contact me at 472-4201/3 should you require more information.

Sincerely

A handwritten signature in black ink, appearing to read "ALC L".

ALBERTO A. LAMORENA V
Director

Enclosure:

Public Law 29-113, Chapter 13 of Title 2, Guam Code Annotated Section 13109(a)(2) Summary Report

Public Law 29-113, Chapter 13 of Title 2, Guam Code Annotated Section 13109(a)(2)

	2004	2005	2006	Summary Report 2007	2008	2009	2010
FEDERAL/MILITARY CONTRIBUTION							
Federal Expenditures ¹	\$1,249,430,179	\$1,412,772,522	\$1,380,351,038	\$1,478,875,722	\$1,567,194,760	\$1,660,788,246	\$1,760,435,541
DOD Federal Agency Transactions ²	\$320,518,220	\$436,417,772	\$447,704,858	\$538,983,748	\$616,881,708	\$686,711,813	NA
Gross Value of Military Transactions ³							\$524,000,000
Military Impact on Guam GIP ⁴							\$185,000,000
ECONOMIC IMPACT							
Construction Permits ⁵	\$100,925,000	\$149,697,000	\$195,431,000	\$323,330,000	\$210,295,000	\$248,611,000	\$268,997,102
Employment ⁶	57,310	57,710	57,960	59,570	60,970	60,110	NA
Military Employment Demand ⁷							6,041
General Fund Revenues ⁸	\$408,972,598	\$443,295,703	\$432,525,481	\$514,392,108	\$513,190,329	\$499,463,054	\$540,218,638
Military to Guam Tax Revenues ⁹							\$65,404
Tourism Arrivals ¹⁰	1,156,199	1,210,147	1,217,111	1,223,290	1,179,246	1,053,248	1,105,910
Average Change in Price Level ¹¹	6.1%	7.7%	11.6%	6.8%	6.2%	1.7%	NA
Population Projection ¹²	166,090	168,564	171,019	173,456	175,877	178,287	180,692
Military Population Increase ¹³							11,038

Footnotes:

- 1) Source: Department of Labor, Review of Federal Expenditure Trends Release #2009-01, January 14, 2009 (FY 2008-10 are estimated)
- 2) Source: Guam Economic Development Authority, Federal Transactions for Work Performed in Guam 2000-2008: September 2009 Draft (FY2009 is estimated)
- 3) Draft EIS Overseas Environmental Impact Statement: Guam and Military Relocation November 2009: Table 4.3-35 Unconstrained
- 4) Draft EIS Overseas Environmental Impact Statement: Guam and Military Relocation November 2009: Table 4.3-39 Unconstrained
- 5) Source: Department of Public Works Fiscal Year Totals
- 6) Source: Guam Department of Labor CY2004-08 September Report
- 7) Draft EIS Overseas Environmental Impact Statement: Guam and Military Relocation November 2009: Table 16.2-11
- 8) Source: Department of Administration, FY2004-8 (Deloitte Touche Tohmatsu audited), FY2009 (PL29-113 Budget Act as adjusted given actuals thru September 2009) FY2010 (PL 30-55 Budget Act)
- 9) Draft EIS Overseas Environmental Impact Statement: Guam and Military Relocation November 2009: Appendix F SIAS Table 4.3-28, 29 & 30 Unconstrained
- 10) Source: Guam Visitors Bureau Fiscal Year Totals, FY2010 is forecasted
- 11) Source: Bureau of Statistics and Plans
- 12) Source: Guam 2000 Census of Population and Housing
- 13) Draft EIS Overseas Environmental Impact Statement: Guam and Military Relocation November 2009: Table ES-2 Unconstrained

ECONOMIC OUTLOOK

The Fiscal Year 2010 economic outlook for Guam, in the aggregate, appears reasonably likely to experience a temporary flattening of the growth curve established in recent years with accelerating growth in late 2010 expected contingent on commencement of scheduled Marine relocation construction. Recent years have shown consistent annual growth in the Government of Guam General Fund revenues. Based on current trends and available planning information, economic activity may continue near the plateau level reached in 2008 through 2009 and 2010. The previously anticipated growth for Fiscal Year 2010 is expected to be negatively impacted by current economic and financial issues in the U.S. Reduced tourism arrivals and associated employment and revenue in recent months appear likely to continue going forward and may be off-set in the economy as a whole by increased federal defense related and local government construction.

The outlook is somewhat tenuous as a number of issues in the global economic, financial, military, and political situations are currently evolving rapidly and are in a fluid state. How these situations evolve could considerably affect the outlook for FY 2010.

These issues are not limited to the following but these are of special note:

- the international financial situation including banking systems, interest rates and credit
- exchange rates
- recessions in the United States, Japan, a looming recession in South Korea, slashed growth rates in China
- major restructuring, bailout packages, possible bankruptcy in the U.S. automotive industry
- continued foreclosures in the U.S. housing industry
- political situations which could disrupt the production or distribution of oil
- changes in U.S. tax code
- economic stimulus programs in the U.S. and abroad
- leadership changes in the U.S. and Japan
- possible unforeseen natural disasters and health issues
- international military and political situations

External flows of funds to Guam could change considerably through the forecast period due to volatility in tourism, investment and federal and local government expenditures.

Key issues on the table that could significantly alter this path include:

- Dump Closure – Federal Consent Decree – construction and financing.
- The outcome and timing of legislative authorized and other proposed bond issuance
- Major changes in tourist arrivals or expenditure levels
- Federal budget authorizations for Guam for FY 2010 including those related to Marine relocation
- Policy decisions and timing regarding construction for the Marine relocation – construction scheduled to commence in late FY 2010.

Construction:

Building permits had been on an upward trend until 2008 when they declined considerably. Total building permits for FY 2007 were \$320 million but declined 34 percent for FY 2008 to \$210 million. DOD construction contracts exceeding \$5 million dollars reached a record high in 2008 at \$295 million for the calendar year and \$252 million for the fiscal year. The total combined value of building permits and

ECONOMIC OUTLOOK

construction contracts for calendar year 2008 was \$506 million, a 14 percent increase over calendar year 2007. The House of Representatives passed the FY 2009 Defense Authorization Act authorizing \$180 million in military construction funding for Guam. These projects are listed as follows:

- \$62.4 million for construction of Bachelor Enlisted Quarters on Naval Base Guam;
- \$50.0 million for completion of the Kilo Warf Extension;
- \$30.0 million for construction of a new central utility plant at the Naval Base Guam;
- \$26.1 million for upgrades to the wastewater collection system at Naval Base Guam;
- \$5.4 million for the realignment of Arc Boulevard on Andersen Air Force Base; and
- \$5.2 million for construction of a combat communications maintenance facility at Andersen Air Force Base.

Historical experience indicates construction activity, employment and revenues in the industry follows changes in permit and contract levels with a lag of one to two years. Based on this high level of permits and contracts construction activities should remain strong throughout 2009 and 2010. While the Department of Defense decline in construction funding authorizations in Public Law No: 110-417 for FY 2009 of \$180 million in comparison to \$345 million in FY 2008 was severe, \$165 million, a 48% drop, a number of major projects awarded in FY 2008 are of such a scale that the construction from the FY 08 contracts will continue through FY 2009 and FY 2010. These include:

- \$24,588,717 Phase I of potable water system recapitalization at Naval Base Guam to DCK Pacific, LLC, Honolulu, Hawaii expected to be completed by April 2010.
- \$40,000,000 Extension and necessary dredging to the Kilo Warf at the Commander Naval Region Marianas Main Base expected to be completed in May 2010.
- \$52,587,000 Helix Electric, Inc. Harden Electrical System, Main Base, Agana, Guam expected to be complete July 2010.
- \$33,150,728 DCK Pacific, LLC design and construction of a fitness center at Naval Base Guam expected to be completed by December 2010.
- \$15,399,603 DCK Pacific Guam, LLC, Repair and alteration of existing facilities to administrative offices for the Joint Region Marianas Headquarters at Nimitz Hill expected to be completed by March 2010.
- \$43,838,018 IBC/TOA Corp., extension and necessary dredging to the Kilo Warf at the Commander Naval Region Marianas Main Base, Guam. An additional \$43,038,018 will be funded upon the passage of FY 2009 Military Construction Appropriation Bill, making the total amount \$86,876,036. It is expected to be completed by March 2010.

ECONOMIC OUTLOOK

In addition to the appropriations funding specifically for Guam projects, a contract was awarded as part of a \$4 billion Sustainment, Restoration and Maintenance Acquisition Task Order Contract (SATOC) with the Air Force Civil Engineer Support Agency (AFCEA) as follows:

- \$50.7 million to Perini Corporation awarded September 27, 2008 for repairs to the South Runway at Andersen Air Force Base, Guam which includes removal and replacement of an existing runway as well as runway and approach lights. The project is expected to take approximately one year, with an estimated completion date of April 2010.

Major private and public scheduled for FY 2010 construction include:

- The consent Decree Financial Impact statement lists cash requirements for dump opening of just over 71 million in FY 2010 of the estimated total project cost of 160 million. This should translate into roughly corresponding construction expenditures and activity.
- Emerald Ocean View Park project construction is scheduled for FY 2009 – 10. The \$100 million dollar project will include 260 condo units and 20 villa-style luxury homes.
- Outrigger Hotel Tower Bayview Projects Phase V. Addition scheduled for completion late 2010. \$60 million

Real Estate:

The decline in real estate transactions from \$686.8 million in 2007 to about \$350 million in 2008 as well as the decline in building permits was exasperated by the moratorium imposed on developers by the Guam Waterworks Authority in May 2008, due to sewer system capacity constraints. While the moratorium is expected to be lifted in April 2009, some of the sales and construction previously planned has since been cancelled or is on indefinite hold due to business and financing issues. Real estate buyers are taking a wait and see approach due to global economic and financial uncertainties. Weakness in sales may translate into reduced future construction.

Tourism:

The number of tourist arrivals had been on an upward trend almost continuously since 2003 following the recovery from the events of 9/11, and subsequent SARS and typhoon Pongsona. In September 2008 the levels fell by around 20 percent in comparison to prior years monthly figures. It appears that a trend is emerging indicating a significant reduction in tourism which could persist throughout 2009 and 2010 based on statements from leading economists, which predicted that an economic recovery could take several years. Tourism is related to Gross Domestic Product (GDP) and Japanese travelers have indicated in exit surveys that economic concerns are a factor in their decision to embark on travel. As this trend is recent with approximately five months experience, it could exhibit some volatility as time goes on. Also some businesses such as hotels, restaurants and retail trade may have held off making business and employment downsizing decisions to some extent until after the Christmas and New Year holiday travel and shopping. There has been recent anecdotal information on a number of employers who had reduced staff, hours or other employment benefit in recent months which has not yet been fully reflected in the monthly or quarterly economic statistics. Additional reductions are in tourism related employment as business continues to adjust to reduced tourist levels over time.

ECONOMIC OUTLOOK

A 2007 report by Global Insights for the Guam Visitor's Bureau found that travelers total economic impact on Guam ranges from 20 percent to over one-third of the total island economy. In terms of employment, tourism is the catalyst for 15,177 jobs, or 35.5% of the private (non-governmental) employment base. As tourism is a significant component of the economy of Guam, arrival reductions will be measurable on the economic bottom line.

In forecasting the short term future of tourism arrivals from Japan a report from Japan's Central Bank may be insightful. A January 23, 2009 statement reported in Bloomberg that:

"Japan's economic conditions have been deteriorating significantly," the central bank said in a report in Tokyo today, using the most pessimistic language to describe conditions since January 1998, when they started publishing the report. The global slowdown has spurred record declines in exports and factory output in the world's second-largest economy and the central bank expects the slump to deepen. Governor Masaaki Shirakawa and his policy board said they expect gross domestic product to shrink 1.8 percent in the year ending March 31 and two percent the following year. Japan's exports plunged 35 percent in December, the most on record, from 27 percent in November. Factory output dropped 8.5% in November, the most in more than 50 years. Weakness in Japan's economy makes a quick rebound in tourism to Guam increasingly unlikely.

In the longer term, the possibility of visa-free entry for nonimmigrant visitors from eligible countries to Guam for business and leisure travel could be expanded to additional markets by including such entry for persons from Russia and China. Tourism officials have indicated that could mean an additional 200,000 to 300,000 Chinese arrivals within several years of implementation as well as higher spending visitors from Russia who currently vacation in Saipan. Issues of security and travelers overstaying are issues of concern that need to be addressed in an ongoing efforts to seek expanded visa-waiver inclusion of China and Russia.

Section 702(a) of the Consolidated Natural Resources Act of 2008, signed into law May 8, 2008, extends U.S. immigration laws to the Commonwealth of the Northern Mariana Islands (CNMI). Section 702(b), which is implemented by the interim final rule, establishes a new Visa Waiver Program for Guam and the CNMI which extends visiting time from 15 to 45 days. The program is scheduled for implementation June 1, 2009 subject to a provision authorizing requests for delay in implementation. The new visa waiver program adds Hong Kong to the list of countries authorized for the program. Travel industry leaders hoped China and Russia would have been included in the interim final rule but additional steps remain for that to occur. The existing visa waiver program implemented in October 1988 included the United Kingdom as well as those with British National Overseas (BNO) passports. On July 1, 1997, Hong Kong, under British rule for 156 years came under the control of China. As the passports of Hong Kong residents with BNO passports expired, the number of persons eligible for travel to Guam under the current visa-waiver program dwindled. Specific inclusion of Hong Kong with a population estimated to exceed seven million could reinvigorate Hong Kong as a visitor market for Guam in its' own right. Furthermore, it could facilitate reestablishment of direct flights from Hong Kong as a gateway for mainland Chinese travelers. In 2007, the U.S. Embassy and Consulates in China issued 417,146 B1/B2 visas (visitors for business and pleasure) to the United States. Convenient direct flight schedules could supplement the Hong Kong to Guam market with Chinese who already have visas for travel to the U.S. or who could obtain one under current regulations.

ECONOMIC OUTLOOK

Employment:

Employment trends have been generally showing slight growth in both the number of employees and wages, resulting in combined moderate growth in total payroll. Over the last few years, construction employment increases have dominated and driven increases in total payroll. Payroll is important as one of the largest revenue categories for income tax including withholdings. The increase in minimum wage schedule has and will further increase hourly earnings in some occupations and industries. The federal and corresponding Guam minimum hourly wage increased from \$5.85 to \$6.55 on July 24, 2008 and will increase again to \$7.25 on July 24, 2009. The prevailing wage rates for H-2 workers made effective October 6, 2008 will increase the rates paid to construction workers over time. The new rates apply to new and renewal employment which time varies by employee. The increases will continue to affect the average construction pay levels over the next year. Limited Government of Guam increases have been or are in the process of being implemented but a general classification and compensation study has been authorized by Public Law 29-52.

Tourism related retail and hotel employment is expected to decline somewhat to be consistent with the first quarter's 15 percent reduction in arrivals; although the employment declines are expected to be less than 15 percent in tourist related businesses, they will not be inconsequential. New establishments with announced openings in FY 2009 include Chili's in Tamuning, Payless Markets Mangilao, Hooters and Burger King, Tumon Bay. This newly created employment should continue through to the FY 2010 employment totals. A new tower for the Outrigger hotel is under construction with scheduled completion for late 2010.

Bond Issues:

Bond financing authorized in PL: 29-113 for payment of COLA and income tax returns could inject \$92.0 million and \$112.0 million respectively, into the economy. When the current financing hurdles, brought about by the market decline, stabilize the Government is poised to approach the market and the proceeds of these funds could shortly thereafter be distributed and available for residents' disposal. Other authorized and proposed bond funding would substantially increase the amount of construction activity and funds in circulation. These include funding for projects of: Guam Memorial Hospital, Guam Public School System (JFK High School), Guam Waterworks Authority, Port Authority of Guam, Department of Land Management, and the landfill construction under federal receivership. The total amount and timing of these financing may occur within the upcoming months and will inject additional construction activities and funds into Guam's economy.

Credit ratings are an important factor in the availability of bond financing and the cost of financing. Standard and Poors (S&P) raised the Government of Guam's existing general obligation bonds from 'B' to 'B-' with stable outlook in October 2008, citing an improved balance sheet that resulted from "greater political consensus to enhance revenue and control expenditure growth". The rating action "affects about \$236.7 million of outstanding general obligation debt as of September 30, 2007. Standard and Poors also noted that fiscal year 2007 for Guam marked the "first ever financial audit with an unqualified opinion, as well as the third consecutive time the audit has been completed on a timely basis. In December 2008, Standard & Poors raised the Guam Power Authority's existing revenue bonds to an investment grade of 'BBB-' from 'BB-' with stable outlook. The rating agency cited several factors in its upgrade, including better operational and financial performance and continued support from the Public Utilities Commission. In January 27, 2009 in the course of routine surveillance, Fitch Ratings affirms the 'BB' rating and changed the Rating Outlook to positive on Guam Waterworks Authority's \$99.3 million in outstanding water and wastewater system revenue bonds, series 2005. Fitch press release noted:

ECONOMIC OUTLOOK

The revision in Rating Outlook to Positive from Positive from Stable reflects GWA's substantial progress to date in meeting regulatory requirements stemming from a stipulated order (the order). The Outlook revision also reflects the progress management has made with regards to capital and financial planning, which provide a blueprint for continued success in returning the system to regulatory compliance and ensuring financial integrity.

Because of its strategic location, U.S. military operations historically have been the main economic engine of the island, and over the next six to eight years the military's economic impact is expected to increase substantially more as the island undergoes a massive buildup of military personnel from relocation of troops from other parts of the globe and consolidation of operations.

The ratings upgrades for the Government of Guam's and well as two of the larger autonomous agencies, Guam Power Authority and Guam Waterworks Agency reflect increasing confidence in the financial management of these organizations as well as the outlook for the economy of Guam.

Federal Policy:

The first non-construction buildup contract in the amount of \$100 million was awarded October 3, 2008 to Pacific Program-Design Management Services Joint Venture, of Pasadena, California, the Program Support Services contract for the Guam military buildup. The company is a joint venture led by Parsons Corporation. The contract involves:

Various projects covered by the Defense Policy Review Initiative and other projects in the [Naval Facilities Engineering Command] Pacific area of responsibility.

The primary project locations for work on this contract are in Guam, (80%), Hawaii (10%), and may include work in the Northern Mariana Islands, (7%), and locations anywhere in the Pacific and Indian Oceans (NAVFAC Pacific's AOR) (3%), and is expected to be completed by September 2013.

The Consolidated Natural Resources Act of 2008, in addition to the visa-waiver provision excludes Guam and CNMI from the numerical limitations on Nonimmigrant workers during the transition period effective on the first day of the first full month commencing 1 year after the date of enactment [June 1, 2009] and ending December 31, 2014. This is one of a number of steps to ensure availability of the workforce necessary to complete the facility construction for the Marines relocation to Guam.

Economic stimulus efforts in the coming year through tax rebates, tax reductions, federally funded infrastructure or federal state and local bond financing guarantees could significantly affect Guam's economy depending on the timing and nature of these policies. The FY 2010 budget authorizations could include substantial funding related to Marine relocation activities. If projects are contracted early in the fiscal year, they could still have significant impact in FY 2010. Such funding could also support confidence in Guam's economic future and support additional private sector financing and projects.

Gary Hiles
Chief Economist
Department of Labor